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FISCAL IMPACT STATEMENT

LS 7241

BILL NUMBER: SB 425

NOTE PREPARED: Jan 11, 2005

BILL AMENDED:

SUBJECT: Coal Combustion Property Tax Deduction.

FIRST AUTHOR: Sen. Waterman

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a property tax deduction for a building if materials made from coal combustion products are systematically used in the building's construction. The bill provides that, in order for construction materials to qualify a building for the property tax deduction, at least 60% of the materials' dry weight must consist of coal combustion products.

Effective Date: July 1, 2005.

Explanation of State Expenditures:

Explanation of State Revenues: The State levies a small tax rate for state fair and state forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds.

Explanation of Local Expenditures:

Explanation of Local Revenues: Beginning with taxes paid in 2007, this bill would provide a 5% deduction from the assessed value of a building "designed and constructed to systematically use qualified materials throughout the building. Qualified materials are defined as building materials that, by dry weight, are at least 60% coal combustion products. The bill references a current law definition of coal combustion products that includes only the byproducts of coal combustion in an Indiana facility.

Qualification would be determined by the Center for Coal Technology Research at Purdue University. If the owner applies for building certification by April 10 of the assessment year, the Center must act on the

application before May 10. If the Center fails to act before May 10, then the building is considered to be certified. The deduction is not limited to new construction.

In CY 1999 approximately 42% of coal combustion products produced in Indiana were reused, a total of 3.5M tons of reused products. Nationally, 40.5 M tons (33%) of 121 M tons of coal combustion products produced in CY 2001 were reused. Coal combustion products are used in many products used in construction, including drywall, Portland cement, fill materials, paints, carpeting, and synthetic tiles. The most common use is in cement or concrete, particularly for highways. The Federal Energy Policy Act of 2002 calls for the increased use of coal combustion products in federally funded projects involving cement or concrete procurement; the state of California's Department of Transportation now requires that fly ash comprise 25% of concrete used in state-funded paving projects.

The large quantity of coal combustion products currently used nationally suggests that there may be a substantial number of buildings either already in existence or scheduled to be built before March 1, 2006, which could be built with coal combustion byproducts. The number and types of these buildings cannot be currently estimated. However, the requirement that these materials must be byproducts from the combustion of coal in an Indiana facility could limit the number of those buildings that qualify for the deduction.

The Center for Coal Technology Research, which is housed by the Purdue Institute for Interdisciplinary Engineering Studies, consists only of a part-time director. The Center currently has responsibility to produce reports, prepare public education programs, and review coal research grant applications. The Center must also approve products whose manufacturers may be able to claim a deduction against the assessed value of the depreciable personal property used in the manufacture of those products. The current staffing level for the Center makes it unlikely that the Center would be able to process many of the applications for the real property deduction. The result would be that many, if not all, applications for the deduction could be certified by default.

The reduction of assessed value that would result from the new real property deduction would shift part of the property tax burden from buildings that qualify for the deduction to all other property. Total local revenues would remain unchanged, except for cumulative funds where the fund revenue would be reduced by the product of the deduction amount multiplied by the fund's tax rate.

State Agencies Affected: Department of Local Government Finance; State Fair Board; Department of Natural Resources

Local Agencies Affected: County auditors.

Information Sources: Center for Coal Technology Research at Purdue University; National Energy Technology Laboratory;

Fiscal Analyst: Bob Sigalow, 317-232-9859.